ALAMEDA COUNTY

Revised Audit Report

CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, AND SEDP PROGRAM

Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996

July 1, 2006, through June 30, 2009

JOHN CHIANG
California State Controller

June 2014

JOHN CHIANG
California State Controller

June 13, 2014

Honorable Keith Carson, President
Board of Supervisors
Alameda County
1221 Oak Street, Room 536
Oakland, CA 94612

Dear Mr. Carson:

The State Controller's Office audited the costs claimed by Alameda County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984, Chapter 1274, Statutes of 1985, Chapter 1128, Statutes of 1994, and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2009.

This revised final report supersedes our pervious report dated February 17, 2012. Subsequent to the issuance of our final report, the California Department of Mental Health finalized its Early and Periodic Screening, Diagnosis and Treatment (EPSDT) reimbursements for fiscal year (FY) 2008-09. We recalculated EPSDT revenues for FY 2008-09 and revised Finding 4 to reflect the actual funding percentages based on the final settlement. The revision increased allowable costs by $208,703, from $ 11,023,279 to $11,231,982.

The county claimed $24,467,549 for the mandated program. Our audit disclosed that $11,231,982 is allowable ($11,241,982 less a $10,000 penalty for filing a late claim) and $13,235,567 is unallowable. The costs are unallowable primarily because the county used incorrect rates and units to calculate costs, claimed ineligible services, and miscalculated offsetting revenues. The State paid the county $4,191,317. The State will pay allowable costs claimed that exceed the amount paid, totaling $7,040,665, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/kw

cc: Honorable Patrick O'Connell, Auditor-Controller
Alameda County
Manuel Jimenez, MFT
Behavioral Health Care Services
Alameda County
Leda Frediani, Director of Finance
Behavioral Health Care Services
Alameda County
Minerva Mendoza
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State Controller's Office

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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Alameda County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and SEDP Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2009.

The county claimed $24,467,549 for the mandated program. Our audit disclosed that $11,231,982 is allowable ($11,241,982 less a $10,000 penalty for filing a late claim) and $13,235,567 is unallowable. The costs are unallowable primarily because the county used incorrect rates and units to calculate costs, claimed ineligible services, and miscalculated offsetting revenues. The State paid the county $4,191,317. The State will pay allowable costs claimed that exceed the amount paid, totaling $7,040,665, contingent upon available appropriations.

Background

<u>Handicapped and Disabled Students (HDS) Program</u>

Chapter 26 of the Government Code, commencing with section 7570, and Welfare and Institutions Code section 5651 (added and amended by Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (CSM) adopted the statement of decision for the HDS Program and determined that this legislation imposed a state mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the HDS Program on August 22, 1991, and last amended them on January 25, 2007.

The parameters and guidelines for the HDS Program state that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code section 17600 et seq. (realignment funds).

Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the HDS Program "are eligible for reimbursement from the state *for all allowable costs* to fund assessments, psychotherapy, and other mental health services . . ." and that the finding by the Legislature is "declaratory of existing law" (emphasis added).

The CSM amended the parameters and guidelines for the HDS Program on January 26, 2006, and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

<u>Handicapped and Disabled Students (HDS) II Program</u>

On May 26, 2005, the CSM adopted a statement of decision for the HDS II Program that incorporates the above legislation and further identified medication support as a reimbursable cost effective July 1, 2001. The CSM adopted the parameters and guidelines for this new program on December 9, 2005, and last amended them on October 26, 2006.

The parameters and guidelines for the HDS II Program state that "Some costs disallowed by the State Controller's Office in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than claimants re-filing claims for those costs incurred beginning July 1, 2001, the State Controller's Office will reissue the audit reports." Consequently, we are allowing medication support costs commencing on July 1, 2001.

<u>Seriously Emotionally Disturbed Pupils (SEDP) Program</u>

Government Code section 7576 (added and amended by Chapter 654, Statutes of 1996) allows new fiscal and programmatic responsibilities for counties to provide mental health services to seriously emotionally disturbed pupils placed in out-of-state residential programs. Counties' fiscal and programmatic responsibilities including those set forth in California Code of Regulations section 60100, which provide that residential placements may be made out-of-state only when no in-state facility can meet the pupil's needs.

On May 25, 2000, the CSM adopted the statement of decision for the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services (SEDP) Program and determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The CSM determined that the following activities are reimbursable:

- Payment for out-of-state residential placements;
- Case management of out-of-state residential placements. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;

- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in the pupil's Individualized Education Plan;

- Program management, which includes parent notifications, as required, payment facilitation, and all other activities necessary to ensure a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The CSM consolidated the parameters and guidelines for the HDS, HDS II, and SEDP Programs for costs incurred commencing with the 2006-07 fiscal year on October 26, 2006, and last amended them on January 29, 2010. The consolidated program replaced the prior HDS, HDS II and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Consolidated Handicapped and Disabled Students (HDS), HDS II, and SEDP Program for the period of July 1, 2006, through June 30, 2009.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Alameda County claimed $24,467,549 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit disclosed that $11,231,982 is allowable ($11,241,982 less a $10,000 penalty for filing a late claim) and $13,235,567 is unallowable.

For the fiscal year (FY) 2006-07 claim, the State paid the county $4,191,317. Our audit disclosed that $5,409,784 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $1,208,467, contingent upon available appropriations.

For the FY 2007-08 claim, the State made no payment to the county. Our audit disclosed that $5,623,495 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $5,623,495, contingent upon available appropriations.

For the FY 2008-09 claim, that State made no payment to the county. Our audit disclosed that $208,703 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $208,703, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on January 17, 2012. Marye L. Thomas, M.D., Director of Behavioral Health Services, and Lori Jones, Director of the Alameda County Social Services Agency, responded by letter dated February 7, 2012 (Attachment), agreeing with the audit results except for Finding 1. We issued the final report on February 17, 2012.

Subsequently, we revised our audit report based on finalized Early and Periodic, Screening, Diagnosis and Treatment revenues by the California Department of Mental Health for FY 2008-09. We recalculated offsetting reimbursements and revised Finding 4. As a result, allowable costs increased by $208,703, from $11,023,279 to $11,231,982 for the audit period. On May 30, 2014, we advised Alice Park-Renzi, Budget Coordinator, County Administrator's Office, of the revisions. This revised final report includes the county's response to our January 17, 2012, draft report. The county did not respond to the Finding 4 revision.

Restricted Use

This report is solely for the information and use of Alameda County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

June 13, 2014

Revised Schedule 1—
Summary of Program Costs
July 1, 2006, through June 30, 2009

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference[1]
July 1, 2006, through June 30, 2007				
Direct costs:				
Referral and mental health assessment [2]	$ 19,756,135	$ 17,834,080	$ (1,922,055)	Finding 1
Authorize/issue payments to providers	2,855,419	2,464,061	(391,358)	Finding 2, 3
Indirect costs	3,468	-	(3,468)	Finding 3
Total direct and indirect costs	22,615,022	20,298,141	(2,316,881)	
Offsetting revenues	(15,181,595)	(14,888,357)	293,238	Finding 4
Subtotal	7,433,427	5,409,784	(2,023,643)	
Less late claim penalty	-	(10,000)	(10,000)	
Total program cost	$ 7,433,427	5,399,784	$ (2,033,643)	
Less amount paid by the State [3]		(4,191,317)		
Allowable costs claimed in excess of (less than) amount paid		$ 1,208,467		
July 1, 2007, through June 30, 2008				
Direct costs:				
Referral and mental health assessment [2]	$ 22,929,318	$ 20,270,045	$ (2,659,273)	Finding 1
Authorize/issue payments to providers	3,374,131	3,116,352	(257,779)	Finding 2, 3
Indirect costs	4,233	-	(4,233)	Finding 3
Total direct and indirect costs	26,307,682	23,386,397	(2,921,285)	
Offsetting revenues	(18,116,179)	(17,762,902)	353,277	Finding 4
Subtotal	8,191,503	5,623,495	(2,568,008)	
Less late claim penalty	-	-	-	
Total program cost	$ 8,191,503	5,623,495	$ (2,568,008)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 5,623,495		
July 1, 2008, through June 30, 2009				
Direct costs:				
Referral and mental health assessment [2]	$ 26,696,164	$ 21,483,294	$ (5,212,870)	Finding 1
Authorize/issue payments to providers	3,987,297	3,619,841	(367,456)	Finding 2, 3
Indirect costs	5,832	-	(5,832)	Finding 3
Total direct and indirect costs	30,689,293	25,103,135	(5,586,158)	
Offsetting revenues:	(21,846,674)	(24,894,432)	(3,047,758)	Finding 4
Subtotal	8,842,619	208,703	(8,633,916)	
Less late claim penalty	-	-	-	
Total program cost	$ 8,842,619	208,703	$ (8,633,916)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 208,703		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference[1]
Summary - July 1, 2006, through June 30, 2009				
Direct costs:				
Referral and mental health assessment [2]	$ 69,381,617	$ 59,587,419	$ (9,794,198)	
Authorize/issue payments to providers	10,216,847	9,200,254	(1,016,593)	
Indirect costs	13,533	-	(13,533)	
Total direct and indirect costs	79,611,997	68,787,673	(10,824,324)	
Offsetting revenues	(55,144,448)	(57,545,691)	(2,401,243)	
Subtotal	24,467,549	11,241,982	(13,235,567)	
Less late claim penalty	-	(10,000)	(10,000)	
Total program cost	$ 24,467,549	11,231,982	$(13,235,567)	
Less amount paid by the State		(4,191,317)		
Allowable costs claimed in excess of (less than) amount paid		$ 7,040,665		

[1] See the Revised Findings and Recommendations section.

[2] The county did not separately identify the related indirect costs when filing its mandate claims. Therefore, we left the related indirect costs in the direct costs line.

[3] County received categorical payment from the California Department of Mental Health from FY 2009-10 budget.

Revised Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated the assessment and treatment costs and related indirect (administrative) costs by $8,332,676 and $1,461,522 for the audit period.

The county used preliminary unit-of-service reports (before the final reconciliation process was complete) to calculate costs, and applied unit rates that were not based on actual costs incurred to implement the program.

The county claimed rehabilitation costs for individual and group rehabilitation services. The services are provided in accordance with a definition that includes a broad range of services including certain adjunct services such as social skills, daily living skills, meal preparation skills, personal hygiene, and grooming. Based on the Commission on State Mandates' (CSM) statement of decision dated May 26, 2011, the portions of the rehabilitation service related to socialization are not reimbursable under the parameters and guidelines. The statement of decision relates to an incorrect reduction claim filed by Santa Clara County for the HDS Program. In light of the CSM's statement of decision, the county must separate and exclude the ineligible portion of the rehabilitation services. To date, the county has not provided our office with any documentation that identifies the eligible portion of claimed rehabilitation services.

In all three fiscal years audited, the county miscalculated its indirect rates by allocating a portion of administrative costs to the total administrative costs. Further, the county failed to reduce the indirect costs by any relevant revenues, and applied the rates to ineligible services.

We recalculated program costs using actual units of eligible services and rates supported by the cost reports and contractual agreements between the county and the service providers. Also, we recalculated the indirect costs and applied the correct administrative percentage to the costs claimed by the county and its providers. The county did not separately identify the related indirect costs when filing its mandate claim. Therefore, we left the related indirect costs and the direct costs line of Schedule 1 of this report.

The following table summarizes the overstated costs:

	Fiscal Year			
	2006-07	2007-08	2008-09	Total
Referral and mental health assessments:				
Direct costs:				
Assessment and treatment costs	$ (1,070,805)	$ (1,329,325)	$ (3,363,282)	$ (5,763,412)
Ineligible rehabilitation costs	(492,316)	(933,979)	(1,142,969)	(2,569,264)
Total direct costs	(1,563,121)	(2,263,304)	(4,506,251)	(8,332,676)
Indirect costs	(358,934)	(395,969)	(706,619)	(1,461,522)
Audit adjustment	$ (1,922,055)	$ (2,659,273)	$ (5,212,870)	$ (9,794,198)

The program's parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs.

The parameters and guidelines (section IV.H.) reference Title 2, *California Code of Regulations* (CCR), section 60020, subdivision (i), for reimbursable psychotherapy or other mental health treatment services. This regulation does not include socialization services. The CSM's May 26, 2011 statement of decision also states that the portion of the services provided that relate to socialization are not reimbursable.

The parameters and guidelines further specify that to the extent the California Department of Mental Health (DMH) has not already compensated reimbursable administrative costs from categorical funding sources, the costs may be claimed.

Recommendation

We recommend that the county ensure that only actual and supported program costs are claimed in accordance with the mandated program, compute administrative cost rates using a method that is consistent with the cost allocations in the cost report submitted to the California Department of Mental Health, and apply administrative cost rates to eligible and supported direct costs. We also recommend that the county ensure that all relevant administrative revenues are applied to valid administrative costs.

County's Response

> We disagree that Alameda County used preliminary units of service reports. Alameda County claimed all units that were considered eligible at the time of claiming. Our Information System (IS) department provides the services that are eligible AB3632 services per the Parameters and Guidelines. Unfortunately, due to recent State Commission on State Mandate ruling, dated May 26, 2011, rehabilitation services that are identified as socialization and vocational are no longer eligible, which caused the discrepancy between the units claimed and the units allowable, which then caused the overstatement of assessment and treatment costs. As such, we are reviewing the rehabilitation services to determine service eligibility and may submit a claim adjustment.
>
> We agree that most of the applied unit rates were not based on actual costs incurred. We used the rates from the Mental Health (MH) Cost Reports, which are used by the State Department of MH. The acceptable methodology to calculate the appropriate rates is by using the Providers' Cost Reimbursement Settlement Reports. Unfortunately, the rates under these reports are not available at the time of claim submission. If the Cost Reimbursements Settlement Reports are available by the deadline of the amended claim, we will calculate costs using this methodology and amend our claim for FY 09-10 and FY 10-11. Otherwise, we can only use the cost per unit (CPU) rates from the MH cost reports as an alternative rate in order to calculate the assessment and treatment costs and in order to submit the claim in a timely manner.

We agree that we miscalculated the administrative rates by failing to reduce the administrative costs by any Medi-Cal Admin revenues. We will recalculate the administrative rates according this audit finding and amend our claim for FY 09-10 and FY 10-11.

SCO's Comment

The finding and recommendation remain unchanged. If the county decides to evaluate its rehabilitation services to determine the eligible portion, we will work with the county to establish an agreed-upon sampling methodology. If the subsequent review results in a reduction of the finding, we will evaluate the impact on claimed costs and revise and reissue the final audit report as appropriate.

FINDING 2— Ineligible vendor costs

The county claimed ineligible vendor costs of $691,946 under Authorize/Issue Payments to Providers.

The county included ineligible vendor payments for out-of-state residential placement of clients in facilities that are owned and operated on a for-profit basis. The costs include only board-and-care payments made to vendors.

The following table summarizes the ineligible vendor costs:

	Fiscal Year			
	2006-07	2007-08	2008-09	Total
Ineligible placements:				
Direct costs:				
Board-and-care costs	$ (304,136)	$ (153,804)	$ (234,006)	$ (691,946)
Audit adjustment	$ (304,136)	$ (153,804)	$ (234,006)	$ (691,946)

The parameters and guidelines (section IV.C.1) specify that the mandate is to reimburse counties for payments to vendors providing mental health services to SED pupils in out-of-state residential placements as specified in Government Code section 7576 and Title 2, CCR, sections 60100 and 60110.

Title 2, CCR, section 60100, subdivision (h), specified that out-of-state residential placements shall be made only in residential programs that meet the requirements of Welfare and Institutions Code section 11460, subdivision (c)(2) through (3). Welfare and Institutions Code section 11460, subdivision (c)(3), states that reimbursement shall be paid only to a group home organized and operated on a nonprofit basis.

The parameters and guidelines also state that all costs claimed must be traceable to source documents that show evidence of the validity of such costs and their relationship to the state-mandated program.

Recommendation

We recommend that the county ensure that out-of-state residential placements are made in accordance with regulations.

County's Response

The county agreed with the finding and recommendation.

FINDING 3— Overstated salaries and benefits, travel costs, and related indirect (administrative) costs

The county overstated salary and benefit costs by $203,702, travel costs by $120,945, and related indirect (administrative) costs by $13,533 for the audit period.

The county claimed salary and benefit costs for county staff that was already included in the pool of direct costs used to compute the unit rates in the county's cost reports. In addition, the county claimed the related travel and indirect costs of the same county staff. Allowing the claimed costs would result in duplicate reimbursement.

The following table summarizes the overstated salary and benefit, travel and related administrative costs:

	Fiscal Year			
	2006-07	2007-08	2008-09	Total
Direct costs:				
Salary and benefit costs	$(52,972)	$ (63,793)	$ (86,937)	$ (203,702)
Travel costs	(34,250)	(40,182)	(46,513)	(120,945)
Total direct costs	(87,222)	(103,975)	(133,450)	(324,647)
Indirect costs	(3,468)	(4,233)	(5,832)	(13,533)
Audit adjustment	$ (90,690)	$ (108,208)	$ (139,282)	$ (338,180)

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs.

The parameters and guidelines (section IV.C.3) specify that the mandate reimburses counties for travel costs necessary to conduct face-to-face contacts at the residential facility to monitor level of care, provide supervision, and provide mental health services as specified in Title 2, CCR, section 60110.

The parameters and guidelines also state that all costs claimed must be traceable to source documents that show evidence of the validity of such costs and their relationship to the state mandated program.

Recommendation

We recommend that the county use a consistent cost allocation methodology to minimize any potential duplication with other mental health programs.

County's Response

The county agreed with the finding and recommendation.

FINDING 4— Understated offsetting revenues

The county understated offsetting revenues by $2,401,243 for the audit period.

The county miscalculated revenues by using preliminary unit-of-service reports and estimated Early Periodic Screening, Diagnosis and Treatment (EPSDT) rates that were not finalized during the claiming process.

Also, the county claimed rehabilitation services that may include ineligible socialization services that are not reimbursable under the parameters and guidelines. Based on the CSM's statement of decision dated May 26, 2011, portions of rehabilitation services related to socialization are not reimbursable under the parameters and guidelines. The county must separate the ineligible portions of the rehabilitation services. To date, the county has not provided our office any documentation that identifies the eligible portion of claimed rehabilitation services. Therefore, we are excluding the portion of revenues that relate to claimed rehabilitation services.

Further, a significant portion of the understated revenues is attributed to not reporting the DMH categorical funding for FY 2008-09; this is in addition to other adjustments in Medi-Cal and EPSDT revenues. We recalculated the offsetting revenues to include all applicable funding sources and applied the appropriate rates for Medi-Cal and EPSDT.

The following table summarizes the understated offsetting revenues:

	Fiscal Year			
	2006-07	2007-08	2008-09	Total
Offsetting revenues:				
Short-Doyle/Medi-Cal FFP	$ (15,873)	$ (55,663)	$ 271,392	$ 199,856
Short Doyle/Medi-Cal FFP - Rehabilitation	193,232	337,200	506,339	1,036,771
EPSDT	(45,331)	(215,959)	(5,332)	(266,622)
EPSDT - Rehabilitation	161,210	287,699	298,953	747,862
DMH categorical funds	-	-	(4,119,110)	(4,119,110)
Audit adjustment	$ 293,238	$ 353,277	$ (3,047,758)	$ (2,401,243)

The parameters and guidelines (section VII.1-4, page 13) specify that any direct payments (categorical funds, Short-Doyle/Medi-Cal FFP, EPSDT, IDEA, and other offsets such as private insurance) received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate, must be deducted from the claim.

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs.

<u>Recommendation</u>

We recommend that the county ensure that all applicable reimbursements are offset against reimbursable costs incurred in the program.

County's Response

The county agreed with the finding and recommendation.

SCO's Comment

Subsequent to issuance of our final report on February 17, 2012, the DMH issued its EPSDT settlement for FY 2008-09. We recalculated offsetting reimbursements and revised Finding 4 to reflect the actual funding percentage. As a result, offsetting reimbursements decreased by $526,989, from $2,928,232 to $2,401,243.

Attachment— County's Response to Draft Audit Report

ALAMEDA COUNTY
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February 7, 2012

Jim L. Spano, Chief
Mandated Cost audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Subject: Alameda County's Response to Handicapped and Disabled Students Program (July 1, 2006 through June 30, 2009) Audit Report

Dear Mr. Spano:

Following is our response to the findings of your letter dated January 17, 2012, regarding the audit for the period 07/01/06-06/30/09. Our response is organized by sections of the report as indicated under each heading.

We would like to clarify that the exit conference on January 5, 2012 took place via telephone conference with the following staff present: Fiona Mar, Financial Services Officer; Edelweiss "Ivy" Alon, Financial Services Specialist; Roberta McKean, Supervising Financial Services Specialist; Sherie Peterson, Auditor; Louie Martirez, Administrative Analyst; Chris Ryan, State Audit Manager; Sherri Turner-Sharpe, State Auditor; Jenna Hashimoto, State Auditor.

Finding 1 – Views of Responsible Officials

We disagree that Alameda County used preliminary units of service reports. Alameda County claimed all units that were considered eligible at the time of claiming. Our Information System (IS) department provides the services that are eligible AB3632 services per the Parameters and Guidelines. Unfortunately, due to recent State Commission on State Mandate ruling, dated May 26, 2011, rehabilitation services that are identified as socialization and vocational are no longer eligible, which caused the discrepancy between the units claimed and the units allowable, which then caused the overstatement of assessment and treatment costs. As such, we are reviewing the rehabilitation services to determine service eligibility and may submit a claim adjustment.

We agree that most of the applied unit rates were not based on actual costs incurred. We used the rates from the Mental Health (MH) Cost Reports, which are used by the State Department of MH. The acceptable methodology to calculate the appropriate rates is by using the Providers' Cost Reimbursement Settlement Reports. Unfortunately, the rates under these reports are not available at the time of claim submission. If the Cost Reimbursement Settlement Reports are available by the deadline of the amended claim, we will calculate costs using this methodology and amend our claim for FY 09-10 and FY 10-11. Otherwise, we can only use the cost per unit (CPU) rates from the MH cost reports as an alternative rate in order to calculate the assessment and treatment costs and in order to submit the claim in a timely manner.

We agree that we miscalculated the administrative rates by failing to reduce the administrative costs by any Medi-Cal Admin revenues. We will recalculate the administrative rates according this audit finding and amend our claim for FY 09-10 and FY 10-11.

Finding 2 – Views of Responsible Officials

We agree with the finding that payments to ineligible (for profit) vendors were included in Fiscal Years 2006-07, 2007-08 and 2008-09 SB 90 claims. Due to recent State Commission on State Mandate ruling, services provided by vendors that are for-profit are not eligible.

Based on this audit finding, we have reviewed Alameda County's SB 90 claim for this program for FY 2009-10, submitted on February 15, 2011. A revised claim will be submitted within a year of the original filing due date bring our claim in line with this audit finding.

Additionally, all vendors whose costs were included in the SB 90 claim for FY 2010-11 were reviewed and have been confirmed as eligible vendors.

Finding 3 – Views of Responsible Officials

We agree with this finding. We will revise our SB90 claim for FY 09-10 and exclude the costs related to this finding.

Finding 4 – Views of Responsible Officials

We agree that the total offsetting revenues were understated because a significant amount of categorical funding was left out unintentionally. Otherwise, the offsetting revenues were overstated during each fiscal year because of the effect of the applied rates and the disallowed rehabilitation services.

In addition, the estimated Early Periodic Screening, Diagnosis and Treatment (EPSDT) rates were used to account for the offsetting EPSDT revenues. The EPSDT settlements for the fiscal years being claimed were not available at the time of claim submission; therefore, an alternative methodology was used to calculate the offsetting EPSDT revenues. As stated on the audit draft letter, the EPSDT settlement for FY 08-09 is still not finalized, which makes this finding pending further revisions and/or adjustments to the FY 08-09 claim.

This concludes our response letter. If you have any questions or concerns, please do not hesitate to call (510) 567-8120.

Sincerely,

Marye Thomas, M.D.
by [illegible]

Marye L. Thomas, MD
Director of Behavioral Health Services
Alameda County

Sincerely,

Kristin Spanos
for Lori Jones

Lori Jones
Director of Social Services Agency
Alameda County

Cc: Marlene Gold
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